COVER SHEET REV 20101214

ERIE COUNTY CLERKS OFFICE

County Clerk's Recording Page

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Party 1:

STEINMETZ BRUCE DAVID

Party 2:

US ENERGY DEVELOPMENT CORPORATION

Recording Fees:	
RECORDING	$66.00
COE CO $1 RET	1.00
COE STATE $14.25 GEN	$14.25
COE STATE $4.75 RM	$4.75
TP584	$10.00
Total:	**$96.00**

Consideration Amount:	**$1.00**
BASIC	**$0.00**
SONYMA	**$0.00**
ADDL	**$0.00**
NFTA MT	**$0.00**
TRANSFER	**$0.00**
NFTA TT	**$0.00**

STATE OF NEW YORK
ERIE COUNTY CLERK'S OFFICE

WARNING - THIS SHEET CONSTITUTES THE CLERK'S ENDORSEMENT, *REQUIRED BY SECTIONS 319&316-a (5) OF THE REAL PROPERTY LAW* OF THE STATE OF NEW YORK. DO NOT DETACH. THIS IS NOT A BILL.

Kathleen C. Hochul
County Clerk

Box 303

NON-DRILLING / NO TRESPASSING
OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into this 29th day of September, 2008, by and between the following parties:

Lessors: **Bruce David Steinmetz**
4661 Route 39
Collins, New York 14034-9764
Hereinafter called the "Lessor,"

-and-

Lessee: **U.S. Energy Development Corporation**
2350 North Forest Road
Getzville, New York, 14068
Hereinafter called "U.S. Energy."

WITNESSETH:

1. Lease. Lessor, for and in consideration of the sum of One Dollar ($1.00) in hand paid, and of the covenants and agreements hereinafter contained to be performed by U.S. Energy, the receipt and sufficiency of which is hereby acknowledged, has this day granted and leased and hereby grants and leases unto U.S. Energy, its successors and assigns, for its exclusive use and possession:

(a) All the oil and gas under the following described land, including the right to mine, explore for (including geophysical exploration activities), produce, treat, drill for and operate equipment and facilities for oil and gas, and to construct, operate, use, maintain and remove on or from the premises wells, whether pre-existing or not, pipelines, tanks, stations, meters, compressors, roads, cathodic protection devices, oil, gas, and water free of charge (except water from Lessor's wells), necessary for or convenient in producing, withdrawing, storing, and transporting oil and gas, and

(b) A perpetual right-of-way over, on and across Lessor's premises, said right-of-way to include the right to lay and maintain pipelines and other related equipment on said lands, whether it be for the benefit of oil or gas produced on or off Lessor's premises. Said right-of-way shall survive the termination or expiration of this Lease, provided a well was drilled on the Lessor's premises or on lands pooled or unitized therewith, without regard to the cessation of drilling activities or oil or gas production on the Lessor's premises.

Lessor's premises are described as that tract of land situated in the Town of Collins, County of Erie, State of New York and bound substantially by the following lands:

NORTH	Route 39; Heusinger, SBL: 332.00-3-12.3
EAST	Weide, SBL: 344.00-3-1.22
SOUTH	Palen, SBL: 332.00-4-8.1
WEST	Palen, SBL: 332.00-4-8.1

Deed References	Town	SBL Tax Parcel Numbers	Acres
Liber 9199 Page 83[539	Collins	332.00-4-9	6

D30

795U-8-1

containing six (6) acres, more or less. In addition to the above described land, Lessor hereby leases to U.S. Energy any and all strings or parcels of land adjoining or contiguous to the above described land and owned or claimed by Lessor. All tracts or parcels of land lease to U.S. Energy herein, including strata and horizons underneath the surface thereof, are herein referred to as the "premises." For purposes of this Lease, oil and gas includes all hydrocarbons and other substances produced or associated therewith.

2. Term. It is agreed that this lease shall remain in full force and effect until midnight on the fifth (5th) anniversary of the date hereof (the "primary term") and as long thereafter as (1) drilling operations continue with due diligence, provided that U.S. Energy has commenced drilling operations on any portion of the premises or any lands pooled or unitized therewith, within the primary term, (2) oil and gas or either of them is produced or withdrawn from any portion of the premises or any lands pooled or unitized therewith, or (3) a completed oil or gas well would be capable of producing oil or gas from any portion of the premises or any lands pooled or unitized therewith, but for acts of God, unavailability or interruption of markets or pipelines, or any other causes which have caused U.S. Energy not to commence production from such well or to suspend production from such well, or (4) this Lease is extended by any other provisions contained herein. U.S. Energy's exercise of any right or entitlement granted under this Lease shall continue this Lease in full force and effect as to all rights and entitlements granted herein, and each right and entitlement granted herein may be exercised by U.S. Energy simultaneously with its exercise of one or more other rights and entitlements, or singly, on a continuing basis. This lease shall terminate and be of no further force or effect in the event that U.S. Energy violates any term or condition of the lease and fails to remedy such default within 30 days after written notice thereof by certified or registered mail.

3. Payments. U.S. Energy shall make the following payments to Lessor:

a. ***Paid-Up Lease.*** U.S. Energy shall pay the Lessor an up-front payment of ***$300.00*** within 90 days after the execution of this lease agreement.

b. ***Royalties.*** U.S. Energy covenants and agrees to deliver to the credit of the Lessor, his heirs or assigns, a royalty of eight percent (8%) of the gross proceeds (less all applicable excise taxes, including production, severance, gross receipts, ad valorem and windfall profit taxes, and less transportation, compression, dehydration, treatment, and gathering costs and deductions for free gas under paragraph 8) realized from the sale of gas produced or withdrawn from those strata or horizons of the premises not used for storage of gas, and from the sale of oil produced or withdrawn from the premises, which gas and oil is sold and used off the premises.

c. ***Storage Fee.*** As full payment for the storage rights set forth in paragraph 6 below, U.S. Energy shall pay to the Lessor a rental at the rate of Two Dollars ($2.00) per acre per year, while the premises are so used, and so long as the storage payment is made, all provisions of this lease shall remain in full effect.

All payments hereunder may be made direct to Lessor or deposited to his credit, or the credit of his respective heirs or assigns as directed by the Lessor in writing. U.S. Energy must be notified in writing, including notice pursuant to Paragraph 13, of any change in title or ownership or in the party to whom, or place where, payments of money are to be made. Failure to pay or error in paying any rental, royalty or other payment due hereunder shall not affect U.S. Energy's obligation to make such payment, but U.S. Energy shall not be considered in default on account thereof until Lessor has first given U.S. Energy written notice of the nonpayment and U.S. Energy shall have failed for a period of thirty (30) days after receipt of such notice to make payment.

4. Restrictions. U.S. Energy shall be responsible for any damage caused by U.S. Energy its agents, employees, and or contractors, in the drilling or operation of any well drilled hereunder, including growing crops, marketable timber, fences and buildings which may result from said operations. No well shall be drilled within two hundred (200) feet of any house or barn now on said premises. All drilling, mining and removal of oil, gas, and minerals shall be carried on in such a manner so as to minimize as much as possible damage to the premises.

5. Lessor Covenants. Lessor hereby covenants that he is seized of an indefeasible fee simple estate in the lands hereinbefore described, together with all of the oil and gas underlying the same, and that he will forever warrant and defend the leasehold estate hereby devised unto U.S. Energy against the lawful claims and demands of all persons whomsoever, and that U.S. Energy shall have the exclusive, full, free and quiet possession of said described premises for the purposes and during the term herein set forth, and Lessor shall not interfere in the operations of U.S. Energy hereunder. Lessor further agrees that U.S. Energy at its option may pay and discharge, when defaulted, any taxes, mortgages or other liens existing, levied or assessed on or against the above described lands, and in the event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty or rentals accruing hereunder.

6. Pooling. U.S. Energy is hereby granted the right to pool and unitize any stratum or strata under all or any part of the land described above with any other lease or leases, land or lands, mineral estates, or any of them, whether owned by U.S. Energy or others, so as to create one or more drilling production units. Such drilling or production units shall not exceed six hundred forty (640) acres in extent and shall conform to the rules and regulations of any lawful governmental authority having jurisdiction in the premises. In the event of the unitization of the whole or any part of the land covered by this lease, U.S. Energy shall mail a copy thereof to the Lessor. In order to give effect to the known limits of the oil and gas pool, as such limits may be determined from available geological or scientific information of drilling operations, U.S. Energy may at any time increase or decrease that portion of the acreage covered by this lease which is included in any drilling or production unit, or exclude it altogether, provided that written notice thereof shall be given to Lessor promptly. The Lessor agrees to accept and shall receive out of the proceeds from the production from such unit, such proportion of the royalties specified herein, as the number of acres out of the lands covered by this lease which may be included from time to time in any such unit, relates to the total number of acres included in such unit. The commencement of drilling, completion of or production from a well, whether drilled before or after unitization, on any portion of the unit created under the terms of this paragraph shall have the same effect upon the term of this lease as if a well were commenced, drilled, completed or producing on the land described herein.

7. Storage. U.S. Energy shall have the right to use any formation underlying the leased premises for storage of gas and shall have all rights and rights-of-way necessary to store and produce such stored gas.

8. Free Gas to Lessor. Lessor shall have gas free of charge for a single building up to two hundred thousand (200,000) cubic feet per year from any one well producing gas located specifically on Lessor's premises (including any contiguous properties as described above), notwithstanding Paragraph 5 herein, by making his own connections with the well. The use of said gas is to be at the Lessor's sole risk and expense and all pipelines, meters and other facilities related thereto shall be installed by a qualified installer. Lessor shall use said reserved gas in safe and proper pipes and appliances, assumes the risk of obtaining

reserved gas from such well, agrees that U.S. Energy shall have the right to abandon such well at any time, and agrees that U.S. Energy shall not in any way be liable for interruption of or insufficient supply of such reserved gas. U.S. Energy shall have no obligation to furnish Lessor with gas in excess of the quantity reserved. Nevertheless, if Lessor in any year consumes gas in excess of the quantity reserved hereunder, U.S. Energy, at its election, may deduct the value thereof from any rentals, royalties or other payments due Lessor, or U.S. Energy may bill Lessor the value thereof, in which case Lessor shall pay said bill promptly. For purposes of this paragraph, the value of such excess consumption shall be derived by using a fair price, which shall in no event be greater than the wellhead price being paid to U.S. Energy for such well or the price charged by a local gas distribution company, whichever is less. If Lessor conveys a portion of or interest in the premises, Lessor may convey his entitlement to reserved gas hereunder as part of such conveyance, but may not subdivide such entitlement.

9. Lease Extension. If at the expiration of the primary term hereof, there is no production of oil or gas on the leased lands, but U.S. Energy is then engaged in operations for drilling, reworking, plugging back, or deepening a well thereon, this lease shall remain in full force and effect and its term shall continue for so long as such operations, or additional drilling, reworking, plugging back, or deepening operations are commenced, while such operations are in progress, or within sixty (60) days after the cessation thereof, are prosecuted, and if production results therefrom, then until it is marketed and so long as production continues. If, after the expiration of the primary term of this lease, production on the leased premises shall cease, this lease shall not terminate, provided that U.S. Energy commences operations for drilling, reworking, plugging back, or deepening a well within sixty (60) days from such cessation, and this lease shall remain in force during the prosecution of such operations or additional drilling, reworking, plugging back, or deepening operations commenced while such operations are in progress or within sixty (60) days after the cessation thereof, and, if production results therefrom, then until it is marketed and so long as the production continues.

10. Surrender of Lease. U.S. Energy, at any time, may surrender this lease as to all or any part or parts of leased premises by tendering an appropriate instrument of surrender to the Lessor, and thereupon this lease, and the rights and obligations of the parties hereunder, shall terminate as to the part or parts so surrendered, except for any environmental compliance requirements or any pre-existing liabilities to the Lessor for unpaid royalties or other payments or obligations. Upon each surrender as to any part or parts of leased premises the rentals, royalties and other payments provided for herein shall be proportionately reduced on an acreage basis. U.S. Energy shall have the right at any time during or within ninety (90) days after the expiration of this lease to remove all machinery, fixtures, buildings or other structures placed on said premises, including the right to pull and remove all casing. Notwithstanding the above, U.S. Energy shall still have the right to continue to use any pipeline rights of way herein granted upon payment to Lessor of Two Dollars ($2.00) per rod per year.

11. Proportionate Payments. Said U.S. Energy shall not be required in any event to increase the delay rental, storage rental, or the gas or oil royalty payments hereunder by reason of any royalty or interest in said oil or gas that may have been heretofore sold, reserved or conveyed by said Lessor or by his predecessors in title or otherwise. If Lessor owns less than all of the oil and gas rights in the premises, Lessor shall be entitled to only that share of the rentals and royalties equivalent to the proportion of such oil and gas rights owned by Lessor. If Lessor owns less than all of the storage rights in the premises, Lessor shall be entitled to a proportionate share of storage rentals equivalent to the proportion of such storage rights owned by Lessor. Unless deeds of

conveyance or other instruments of record otherwise provide, storage rentals shall be apportioned equally between ownership of the surface of the premises and ownership of the gas rights therein. If U.S. Energy makes rental or royalty payments in excess of Lessor's entitlement thereto, Lessor shall refund to U.S. Energy such part of all such payments made by U.S. Energy under this Lease as shall be proportionate to the title not held by Lessor, and U.S. Energy may reduce subsequent payments in the same proportion. If Lessor does not timely provide such refund, U.S. Energy may also reduce payments to Lessor by the amount that should have been refunded. In case of a conveyance or reservation of all or a part of or an undivided interest in the premises, U.S. Energy shall apportion all entitlements or benefits under the Lease according to interest, acreage or other terms of the conveyance as the case may be (except as provided in Paragraph 9). Notwithstanding the above, U.S. Energy may continue to pay or provide all such entitlements or benefits to Lessor until furnished with the original or a certified copy of the deed of conveyance or, at U.S. Energy's sole option, other documents or proof of conveyance, so that U.S. Energy may identify the land or interests conveyed as being all or part of the premises. In case of notice of an adverse claim to the premises, or any part thereof or interest therein, affecting all or any part of the rentals, storage rentals or royalties, U.S. Energy may withhold payment or delivery of the same until ownership is determined by compromise, or by final decree of a court of competent jurisdiction, and to this end U.S. Energy may file a petition for interpleader.

12. Force Majeure. This lease shall not be terminated, in whole or in part, nor shall U.S. Energy be held liable for damages for failure to comply with the express or implied covenants hereof, if compliance therewith is prevented by, or if such failure is the result of interference by an act of God, strikes, riots, war, equipment or pipeline breakdown or freeze-up, court actions, and Federal or State laws, executive orders, rules or regulations, whether valid or invalid, and similar factors beyond U.S. Energy's control. During any period and for ninety (90) days thereafter that U.S. Energy is unable to comply with the obligations herein to drill, produce and market any products from the leased premises by reason of any of the above recited causes, this lease shall remain in full force and effect; however, U.S. Energy will resume paying shut-in royalties on the first anniversary of this lease occurring (90) days after initial interference from one of the above causes.

13. Assignment. Either party shall have the right to assign this Lease or any interest therein, and the assignee thereof shall have corresponding rights, privileges and obligations with respect thereto. All terms, conditions and covenants between the parties hereto shall extend to their respective heirs, successors, personal representatives and assigns. If either party assigns this Lease or any interest therein, the other party will look solely to assignee for fulfillment of all obligations of the Lease or of the interest assigned, as the case may be. Representations other than those contained herein shall not be binding on either party.

14. Successors. All terms, conditions, limitations and covenants between the parties hereto shall extend to their respective heirs, successors, personal representatives and assigns.

15. Shut-In Well. If a well capable of producing oil or gas located on the leased premises (or on acreage pooled or consolidated with all or a portion of the leased premises) is at any time shut-in and no gas, oil or gas-condensate therefrom is sold or used off the premises, such shut-in well shall be deemed to be a producing well on the leased premises and this lease will continue in force during all of the time or times while such well is so shut-in whether before or after the expiration of the primary term hereof. U.S. Energy shall be obligated to pay or tender to Lessor within forty-five (45) days after the expiration of each period of one year in length (annual period) which such well is so shut-in, as a royalty, One Hundred Dollars ($100.00) for such an annual period. Such payment shall be deemed a royalty under all provisions of this lease.

16. Location of Facilities. U.S. Energy and Lessor shall mutually agree on wellsites, access road and pipeline locations prior to any operations, which agreement shall not be unreasonably withheld by Lessor.

17. Statutory Compliance. U.S. Energy shall promptly comply with all current and future statutory and regulatory requirements, permits, licenses, and certificates, of any kind, applicable to U.S. Energy, their business, the premises, and the mortgaged assets, including, without limitation, the Clean Air Act; the Federal Water Pollution Control Act, Executive Order 11990 (protection of wetlands) and the regulations issued thereunder; the Safe Drinking Water Act; the Wild and Scenic Rivers Act, as amended; the Resource Conservation and Recovery Act of 1976; the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986; and all other State and local environmental laws, rules and regulations; all workers compensation laws, all laws and regulations relating to taxes, building, zoning, safety, and all other applicable laws, rules and regulations.

18. Non-Drilling/No Trespassing Lease. Lessee agrees that said lease is a Non-Drilling/No Trespassing Lease and that all wording and clauses in said lease that pertain to drilling or entering onto Lessor's said acreage are **null and void.**

19. Cancellation of Lease. IF THIS LEASE BECOMES FORFEITED, TERMINATED OR EXPIRES, THE LESSEE, OR IF THE LEASE HAS BEEN ASSIGNED, THE ASSIGNEE IS REQUIRED TO PROVIDE A DOCUMENT CANCELING THE LEASE AS OF RECORD, AT NO COST TO THE CURRENT LANDOWNER. IF THE LESSEE OR ASSIGNEE FAILS TO CANCEL THE LEASE, THE CURRENT LANDOWNER MAY COMPEL A CANCELLATION (PURSUANT TO SECTION 15-304 OF THE GENERAL OBLIGATIONS LAWS OF THE NEW YORK STATE).

20. Statutory Statement. THIS IS A LEASE OF OIL AND GAS RIGHTS, NOT A SALE, CONTAINING TERMS THAT MAY BE NEGOTIATED BY YOU. YOU HAVE THE RIGHT TO CANCEL THIS LEASE WITHIN THREE BUSINESS DAYS AFTER EXECUTION OF THE LEASE BY NOTIFYING THE LESSEE THAT YOU HAVE CANCELED THIS CONTRACT. IN ORDER TO CANCEL THIS LEASE, YOU MUST EXECUTE A NOTICE OF CANCELLATION IN THE FORM PROVIDED BELOW, MAIL IT TO THE LESSEE AND REFUND ALL AMOUNTS PAID TO YOU BY THE LESSEE WITHIN THE THREE-DAY CANCELLATION PERIOD. THE MAILING MUST BE POSTMARKED WITHIN THE THREE-DAY CANCELLATION PERIOD TO BE EFFECTIVE.

NOTICE OF CANCELLATION
I/WE HEREBY CANCEL THIS LEASE.

DATED:
SIGNATURE(S):

THE PERSON PRESENTING THIS LEASE TO YOU IS { } NOT { X } A MEMBER OF AMERICAN ASSOCIATION OF PROFESSIONAL LANDMEN AND THEREFORE IS { } IS NOT { X } SUBJECT TO A CODE OF CONDUCT. IF THE PERSON PRESENTING THIS LEASE TO YOU IS SUBJECT TO A CODE OF CONDUCT, A COPY OF THE CODE OF

CONDUCT MUST BE PRESENTED TO YOU WITH THIS LEASE. IF APPLICABLE, THE CODE OF CONDUCT PROVIDES A DISPUTE RESOLUTION MECHANISM FOR ANY DISPUTE THAT YOU MAY HAVE REGARDING THE MANNER BY WHICH THIS LEASE WAS PRESENTED TO YOU. IF YOU HAVE ANY SUCH DISPUTE, YOU MAY INVOKE THE DISPUTE RESOLUTION MECHANISM OF THE CODE OF CONDUCT BY CONTACTING THE PERSON OR PERSONS DESIGNATED IN THE CODE OF CONDUCT. THE FAILURE OF THE LESSEE TO PAY ANY ROYALTIES TO YOU AS REQUIRED UNDER THE TERMS OF THE LEASE FOR A PERIOD OF FOUR CONSECUTIVE MONTHS OR MORE SHALL BE A DEFAULT UNLESS OTHERWISE PROVIDED BY LAW, AND WILL RESULT IN CANCELLATION OF THE LEASE APPLICABLE THE TARGET FORMATION OF THE WELL WITHIN THE SPACING UNIT, FOLLOWING WRITTEN NOTIFICATION TO THE LESSEE OF YOUR INTENT TO CANCEL AND SIXTY DAYS FOR THE LESSEE TO CURE THE DEFAULT. IF THE LESSEE HAS A BONA FIDE DISPUTE REGARDING THE GROUNDS FOR CANCELLATION, SUCH DISPUTE AND THE REASONS THEREFOR MUST BE PROVIDED TO YOU IN WRITING OR THE DEFAULT MUST BE CURED WITHIN SUCH SIXTY DAY PERIOD, OTHERWISE THE LEASE SHALL BE CANCELLED.

IN WITNESS WHEREOF the parties to the agreement have hereunto set their hands and seals.

LESSOR:

Bruce David Steinmetz

Social Security Number: _____

Phone: _____

(Acknowledgement on following page)

ACKNOWLEDGMENT

STATE OF NEW YORK)
COUNTY OF ERIE) ss

On the 29th day of September, in the year 2008, before me the undersigned, a Notary Public in and for said State, personally appeared Bruce David Steinmetz personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and he acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, executed the instrument.

Judy Olson
Notary Public

Judy Olson
Notary Public, State of New York
Qualified in Chautauqua County
My Commission Expires Sept. 24, 2011